



Transmittal Letter

For the Fiscal Year
Ended June 30, 2004

City of Scottsdale
Scottsdale, Arizona

September 9, 2004

The Honorable Mayor, City Council,
and Citizens of the City of Scottsdale, Arizona:

The Comprehensive Annual Financial Report of the City of Scottsdale (the City), Arizona, for the fiscal year ended June 30, 2004, is submitted in accordance with Article 6, Section 14, of the City Charter. This report was prepared by the City's Accounting and Budget Divisions, in conformity with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Scottsdale. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of the City of Scottsdale has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Scottsdale's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Scottsdale's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert to the best of our knowledge and belief that this financial report is complete and reliable in all material respects.

The City of Scottsdale's financial statements have been audited by Cronstrom & Trbovich, PC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Scottsdale for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Scottsdale's financial statements for the fiscal year ended June 30, 2004 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Scottsdale was part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Scottsdale’s separately issued Single Audit Report.

GAAP requires that management provides a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Scottsdale’s MD&A can be found immediately following the report of the independent auditors.

CITY OF SCOTTSDALE PROFILE

Scottsdale is centrally located in Maricopa County, Arizona, with its boundaries encompassing an area approximately 184.6 square miles. Lying at an elevation of 1,260 feet above sea level, the City averages 314 days of sunshine and 7.74 inches of rainfall per year, with the average minimum and maximum temperatures ranging from 55.7 degrees to 84.6 degrees, respectively. The City is bordered to the west by Phoenix, the state capital, by Tempe to the south, and by the Salt River/Pima Maricopa Indian Community to the east. Scottsdale, together with its neighboring cities, forms the greater Phoenix metropolitan area, which is the economic, political, and population center of the state.

Scottsdale was founded in the 1800’s when retired Army Chaplain Major Winfield Scott homesteaded what is now the center of the City. The City incorporated in 1951 and the City Charter, under which it is presently governed, was adopted in 1961. The City has experienced significant increases in population, with the 1950 census reporting 2,032 residents, the City’s 1990 census reporting 130,069 residents and the 2000 census reporting 202,705 residents. The City’s population is estimated to be approximately 222,600 by July 2004 and an estimated 224,320 by January 2005.

Scottsdale operates under a council-manager form of government as provided by its Charter. The Mayor and six City Council members are elected at

large on a non-partisan ballot for a four-year term. The City Council appoints the City Manager, who has full responsibility for carrying out Council policies and administering City operations. The City Manager, in turn, appoints City employees and department General Managers under service procedures specified by Charter. City service departments provide a full range of services including police and fire protection, sanitation/solid waste service, water and sewer services, construction and maintenance of streets, recreational activities, and cultural events.

The annual budget serves as the foundation for Scottsdale’s financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Highway User Fuel Tax Special Revenue Fund, Preserve Privilege Tax Special Revenue Fund, Transportation Privilege Tax Special Revenue Fund, Debt Service Funds (except for the Community Facilities Districts Debt Service Funds), and Enterprise Funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented. On or before the second regular Council meeting in May, the City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Two public hearings are held prior to the budget’s final adoption in order to obtain taxpayer comments. At the first regular Council meeting in June, the budget is legally enacted through passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20. During FY 2003/04, there were no supplemental budgetary appropriations to the original budget.

The expenditure appropriations in the adopted budget are by department. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. Departmental appropriations may be amended during the year. Upon the recommendation of the City Manager, and with the approval of the City Council: (1) transfers may be made from the appropriations for contingencies to departments; and (2) unexpended appropriations may be transferred from one department to another. Management control of budgets is further maintained at a line item level within the department.

FACTORS AFFECTING THE CITY'S FINANCIAL CONDITION

At the time of writing this transmittal letter, the national and state economies were in the midst of a modest recovery compared to the relatively anemic performances from the past few years. Gains in productivity, retail sales, tourism, housing, and the gross domestic product all point to a continued resurgence in the economy. However, some economists have labeled the economic rebound as a “soft” recovery due to the weak job market, the lack of new jobs, and minimal increases in workers’ wages. Looking ahead, there are several key factors that will determine the strength and duration of the current economic recovery, including inflation, rising interest rates, the upcoming presidential election, acts of terrorism and the geopolitical instability in the Middle East.

The City of Scottsdale continues to benefit from favorable conditions, including a stable, diversified economic base and a desirable location for work, destination, and living. Low commercial vacancy rates, current low mortgage interest rates, and the attractive developments within Scottsdale continue to bring high-end residential growth and commercial development. Commercial successes can be expected to continue because of the City’s commitment to targeted recruitment efforts that focus on industry segments that complement the existing business mix, including: corporate headquarter and regional offices; high-tech, research and development; bio-med; and business and professional services.

From a long-term perspective, the nation’s economy may be significantly affected by many factors, including geopolitical instability, a growing national debt and demands on Social Security as baby-boomers near retirement. On the local front, the City of Scottsdale will face critical decisions regarding redevelopment and in-fill projects as the City reaches build out and a gradual decline in population growth, which will impact distributions of state-shared revenues. The City will experience a shifting of the City’s economic base, as ample tax revenues derived from new growth will no longer be available, and intense competition from other communities in the region for quality of place. The following categories represent key factors affecting Scottsdale’s economic and financial success.

Local Economy

Retail Sales - Scottsdale’s largest revenue source is sales tax generated from a well-balanced variety of business categories

including automotive, construction, food stores, hotels/motels, department stores, retail stores, restaurants, utilities and rentals. After two consecutive years of negative year-over-year sales tax growth, the City of Scottsdale sales tax receipts posted a 9.5 percent gain in FY 2003/04; respectable, but still well below the City’s double-digit growth that was common in prior decades. Factors contributing to a brighter economic outlook for retailers included rising consumer confidence, continued low interest rates, a red-hot housing market, increased factory orders and productivity, and tax refunds from President Bush’s economic stimulus package.

Residential Activity - Residential property value in Scottsdale increased to \$23.7 billion in FY 2003/04, up approximately 23.4 percent from \$19.2 billion in FY 2002/03. The number of dwelling units for residential construction increased to 2,903 in FY 2003/04, up approximately 41.9 percent from 2,046 in FY 2002/03; respective residential construction value increased to \$426.2 million in FY 2003/04, up approximately 6.4 percent from \$400.5 million in FY 2002/03.

Commercial Activity - Commercial property value in Scottsdale decreased slightly to \$7.2 billion in FY 2003/04, down approximately 1.4 percent from \$7.3 billion in FY 2002/03. The number of commercial construction permits increased to 2,512 in FY 2003/04, up approximately 13.4 percent from 2,215 in FY 2002/03; respective commercial construction value increased to \$252.3 million in FY 2003/04, up approximately 26.7 percent from \$199.2 million in FY 2002/03.

Vacancy Rates - Scottsdale’s citywide vacancy rate was 15.9 percent at the end of FY 2003/04, which was below the Valley-wide average. The weighted average rent was 13.3 percent higher than the Valley-wide average, evidence that Scottsdale remains an attractive city to conduct business. The forecasted vacancy rate for FY 2004/05 indicates improvement, in line with a more positive economic outlook.

Job Growth - The City of Scottsdale recruited over five new targeted firms and secured six expansions resulting in over 1,800 new jobs in FY 2003/04 with an average annual salary of \$55,000. The City benefited from population growth as well as higher income levels due to higher wage jobs. Major new employers to

announce moves to Scottsdale in FY 2003/04 included TD2, Scottsdale Mitsubishi and Liberty Mutual. The City also benefited from the expansions of Nautilus Insurance, Taser International, MicroSemi and McKesson.

Employment - Scottsdale is creating jobs faster than it is adding to its labor force and thus remains a net importer of labor. This creates employment opportunities for Scottsdale residents and creates a significant business component to the local tax base. Scottsdale's current unemployment rate of 3.1 percent is lower than state and metropolitan Phoenix area levels and is lower than its 2003 unemployment rate of 3.7 percent.

Tourism - Tourism is one of Scottsdale's largest industries and is a significant contributor to the City's economy. Numerous resorts, country clubs and convention facilities, as well as many hotels and motels, provide nearly 10,000 guest rooms and offer recreational facilities including golf courses, tennis courts and swimming pools. The number of rooms is expected to remain stable through 2006. More than 2,500 retail shops, boutiques, and galleries are located throughout the City and a selection of almost 400 restaurants is available. These services and facilities, complemented by the mild winter climate, have made Scottsdale a popular vacation spot for tourists and winter visitors.

Hotel occupancy tax receipts increased by approximately 7.0 percent in FY 2003/04 compared to only a 0.1 percent increase in FY 2002/03. The current assessment for FY 2004/05 is that tourism will continue to experience a modest recovery from its post September 11, 2001 levels, reflected by gradual increases in occupancy and room rates. The local tourism industry continues to exhibit signs of moderate recovery as leisure and business travelers return to Scottsdale; however, hotel room rates remain relatively low compared to historic levels as hoteliers offer discounts to spur demand. Therefore, while the long-term outlook for local tourism remains cautiously optimistic, slower hotel occupancy tax growth is expected relative to historic levels.

Long-term Financial Planning

The City's responsiveness to emerging economic challenges and its careful long-range planning have been key factors in Scottsdale's fiscal health. Fiscal conservatism, a streamlined

budget, and operating efficiencies have resulted in a solid financial position for the City at the close of FY 2003/04. The Mayor and City Council have co-created a mission statement as well as six broad goal categories, which represent key interests and priorities of the Mayor, City Council, and reflect their constituency's suggestions and expectations for the future. Approval by Council of these Mission and Goal statements allows staff to create strategic plans and a programmatic budget that directly responds to the Council's and community's goals and expectations. Plans articulated in the FY 2004/05 Adopted Budget and Five-Year Balanced Financial Plan continue to support basic government services (roads, water, sewer, solid waste management, public transit, parks and recreation, police, fire, etc.), while also addressing the City Council's broad goals and citizen expectations for the community. The following are the mission and broad goals identified by Scottsdale's Mayor and City Council:

Mission - It is the mission of the City of Scottsdale to build citizen trust by fostering/ practicing open, accountable, and responsive government; to provide quality services; to provide long-term prosperity; to preserve Scottsdale's unique southwestern character; to plan and manage growth in harmony with its desert surroundings; and to promote livability by enhancing and protecting its neighborhoods. Quality of life for residents and visitors shall be the paramount consideration.

Broad Goals

- A. Enhance and protect a diverse, family-oriented community where neighborhoods are safe, protected from adverse impacts, and well maintained.
- B. Preserve the character and environment of Scottsdale.
- C. Provide for the safe, efficient, and affordable movement of people and goods.
- D. Position Scottsdale for short- and long-term economic prosperity by stabilizing, promoting, strengthening, stimulating, expanding, and diversifying our economic resources.
- E. Ensure Scottsdale is fiscally responsible and fair in its management of taxpayer money and city assets, and coordinates land use and infrastructure planning within the context of financial demands and available resources.

F. Make government accessible, responsive, and accountable so that pragmatic decisions reflect community input and expectations.

Strategic Financial Plan

Scottsdale's financial plan requires many elements working in concert with one another. Some of these financial plan elements are financial resource planning, multi-year budget planning, strategic capital improvement project planning and debt management, all of which are further identified below. Currently, Scottsdale's financial forecast includes modest revenue growth, potential for State reductions of revenue sharing due to population shifts, and continued increases in demand for City services such as police, fire, transportation and social services. Financial Services management role will be to maintain and enhance financial plan elements and ensure the continued financial stability for the City of Scottsdale.

Financial Resource Planning -

Strategic financial planning begins with determining the City's fiscal capacity based upon long-term financial forecasts of recurring available revenues. Financial forecasts coupled with financial trend analysis techniques and careful reserve analysis help preserve the fiscal well being of Scottsdale. Strategic financial capacity planning is a critical element to reach long-term financial stability goals and to determine special financial needs for critical objectives of the City Council.

Multi-Year Budget Planning - Multi-year budget planning encompasses long-range operating expenditure plans (including the operating impacts of planned capital projects), which are linked to community expectations and broad goals of the City Council. The multi-year approach provides a better opportunity for staff to change its financial paradigm from what do we need this year to how do we accomplish our service objectives over time, given our financial capacity. While the City is required to adopt an annual budget to meet State statutory requirements, Scottsdale builds a financial plan for the next five years to help anticipate future impacts and ensure achievement of City objectives.

Strategic Capital Improvement Project

Planning - Scottsdale Capital Improvement Projects are planned for five or more years and analyzed using City specific prioritization criteria. The operating cost impacts of projects are also planned and considered in developing future operating budget plans. Projects with significant operating impacts are carefully timed to avoid contingent liabilities, which future operating resources cannot meet. Pay-as-you-go funding sources are also conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used and/or required capital project plans are sized to conform to existing debt management policies. The table below estimates the operating costs attributable to the Five Year Capital Improvement Plan:

**Estimated Operating Impacts
Attributable to Capital Projects
For the Five Years Ending June 30, 2009
(in thousands of dollars)**

Community Facilities	\$17,682.0
Preservation	248.4
Public Safety	7,696.6
Service Facilities	2,830.4
Transportation Improvements	9,329.9
Water Resources	13,838.0
Total Estimated Operating Impacts	\$51,625.3

Debt Management - Scottsdale has a financial policy, which prohibits the issuance of debt for operating expenses. With that as a governing framework all debt issuances are for the purposes of financing capital infrastructure (or long-lived costly assets). Each debt issuance is evaluated against multiple additional policies addressing debt service as a percent of operating expenditures; tax and revenue bases for the repayment of debt; the overall debt burden on the community; statutory limitations and market factors affecting tax-exempt interest costs. In all cases a long-term analysis is made considering the financial (debt) capacity that fits the wherewithal (and willingness) of our community to pay for the capital projects. The annual debt service operating cost for each additional \$1 million dollars in new debt ranges from \$75,000 to \$80,000, based on a current interest rate of 4.5% when amortized over 20 years. Sizing of the City's Capital Improvement Project Plan based on debt capacity in conjunction with conservatively estimated pay-as-you-go revenues will help stabilize per capita debt and lower annual debt service costs to the City over the long-term.

Cash Management Policies and Practices

Cash temporarily idle during the year, excluding that of the Municipal Property Corporation (MPC), and the Community Facilities Districts, was invested primarily in obligations of the U.S. Treasury and its agencies. Cash needed for normal operations was also invested in the State Treasurer's Local Government Investment Pool and mutual funds whose portfolios consist solely of U.S. Government Treasury and Agency securities. The City utilizes a pooled cash concept in order to invest greater amounts of cash at one time and; therefore, receives more favorable interest rates. The average yield on pooled investments for the FY 2003/04 was 2.46% and the average balance was \$434,759,423.

Scottsdale's investment policy is to invest all of the City funds at the highest available interest rate, assuring that all monies are fully secured with emphasis on safety of principal, liquidity and financial return on principal, in that order.

Risk Management

The City of Scottsdale is exposed to various risks of loss related to public, property and airport operator's liability, as well as employee workers' compensation exposures. Public liability includes public officials' errors and omissions, automobile, and general liability areas of coverage. The City is self-insured for the first \$2,000,000 of public liability, the first \$100,000 of property insurance, and the first \$600,000 of workers' compensation claims. Coverage in excess of these respective amounts is provided through the purchase of commercial insurance.

For the fiscal year ending June 30, 2004, the global property-casualty insurance marketplace eased slightly from the September 11th terrorist attack downturn allowing the City to purchase an additional \$10.0 million of liability insurance (\$40.0 million total limits) at the same approximate cost as the previous year.

As for claim expenditures, settlements for each of the past five fiscal years have not exceeded the City's excess insurance coverage amounts for any claims.

Scottsdale has an aggressive safety program that promotes on-the-job safety practices focusing on risk control techniques designed to minimize accident-related losses. In addition to

preventative practices geared to work unit functions, the Risk Management division reviews every claim in order to develop and implement prevention techniques that minimize the City's exposures to similar incidents.

Post-Employment Benefits

The City participates in the Arizona State Retirement System, the Public Safety Personnel Retirement System, and the Elected Officials' Retirement Plan. In addition, the City provides an option of post-retirement health care benefits, in accordance with Chapter 14 of the City Code. At retirement, employees with medical leave accumulated prior to September 6, 1976 are eligible for payment of medical leave at one hundred percent cash value at current rate of pay. Employees hired before July 1, 1982 can elect to receive cash equal to fifty percent of the first five hundred twenty hours of unused medical leave plus twenty-five percent of all hours in excess of five hundred twenty. The conversion rate is the employee's average hourly base pay rate for the five years immediately preceding retirement. Any retiring employee with 300 or more hours of accumulated medical leave, who chooses to remain on the city medical plan, may elect to apply the value of the sick leave to the employee's portion of the health care premiums, up until age 65. The value of the accumulated medical leave is calculated at the employee's hourly rate of pay at the time of retirement. The number of participants at the end of fiscal year 2003/04 was 96 and is expected to grow as more employees reach retirement age. The projected liability for this benefit was actuarially determined on January 1, 2004 and was used to calculate the liability recorded in the financial statements. (See Note V of the Notes to the Financial Statements for additional information on this benefit)

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

During FY 2003/04 Scottsdale continued to invest in basic government service programs and amenities that define the special character of the City. These programs and amenities will assist in maintaining Scottsdale as a "livable" community for future generations.

Service efforts to shape and maintain Scottsdale as a sustainable community that were made in the past

year included enhancements to the quality citizen services, contributions to environmentally and fiscally-sound infrastructure and contributions toward building and maintaining a sustainable economic base.

The following are some department service efforts and accomplishments for FY 2003/04.

Police

Developed a Police Department Strategic Plan to chart the course for the next five years. The plan addresses issues of department development and public safety response. A review mechanism has also been developed to ensure the plan components are tracked and progress is reported and communicated to the organization, City leadership, and the community.

Cleared 15% of reported burglary cases in calendar year 2003 (State average was 6.9%). Arrested 80 career offenders and used the Maricopa County Attorney Repeat Offender Program for enhanced prosecution.

Conducted undercover operations on activity in, and relating to, Scottsdale nightclubs. The operation targeted multiple suspects operating in an “open market” environment selling crack cocaine, cocaine, and methamphetamine. Over 32 arrests were made and \$570,000 of drugs were seized.

Conducted training for all first responders in weapons of mass destruction response and completed several scenario drills. Over 450 City personnel were trained in first responder guidelines.

Fire

Completed the construction and occupied the new permanent airport fire station at 14970 North 78th Way.

Completed design and began construction of a new permanent fire station at Ranch and Pima Roads.

Awarded federal funding from the fiscal year 2003 Assistance to Firefighter Grant program.

Completed the process of obtaining all the large fire apparatus during fiscal year 2003/04.

Financial Services

Awarded ratings of “AAA”, “Aaa”, and “AAA”, from the three major credit rating agencies, Fitch Ratings, Moody’s Investors Service, and

Standard and Poor’s Ratings Services, respectively, on outstanding general obligation bonds. These are the highest possible ratings.

Defeased (retired) \$12.5 million of General Obligation bonds, \$29.3 million of Excise Tax Refunding Bonds and \$3 million of taxable Municipal Property Corporation bonds. Refunded (re-financed) \$16.3 million of General Obligation, \$18.89 million of Water/Sewer Excise Tax Revenue, and \$22.77 million of Scottsdale Preserve Authority bonds to take advantage of low interest rates and the City’s high credit ratings, resulting in \$2.7 million debt service savings. Sold \$48 million of General Obligation bonds, \$65.4 million of Preservation General Obligation bonds, and \$75 million of Municipal Property Corporation water/sewer bonds to fund a variety of capital infrastructure projects.

Implemented web-based requests for utility billing service. The E-Government platform allows customers to request their service started, stopped, or changed for Water, Sewer, and Solid Waste, removing the need to call and schedule activities related to move-in/move-outs.

Upgraded sales tax and subsidiary systems to handle the new sales and use tax rates approved by Scottsdale voters May 18, 2004.

Developed web-based graphics requisition system that replaces paper forms process for requesting business cards, document reproduction, and creation from the Graphics department. The system is a complete request management solution that tracks requests from inception to completion.

Transportation

Completed a \$650,000 security improvement project at the Scottsdale Airport, including hardwiring all Airport access locations and installing 16 security cameras and a new security access control system.

Reorganized the Transportation Department as the City formed a new Downtown Group partly comprised of Department staff.

Completed and published a strategic plan for Scottsdale Intelligent Transportation Systems operation, the first in the region for an arterial management organization.

Inaugurated the new trolleys on the Downtown Trolley routes and had the busiest season of its tenure. Trolleys were used on the Giants

Shuttle for the first time and ridership was also the highest it has ever been.

Achieved adoption of a new Scottsdale Streets Master Plan by City Council in October 2003.

Installed new turn lanes at the Frank Lloyd Wright/Greenway-Hayden, Chaparral/Hayden and Camelback/Hayden intersections.

Completed a new bridge at the Deer Valley/Hayden-Miller intersection.

Community Services

Awarded the National Gold Medal Award for Excellence in Parks and Recreation Management. This prestigious national award gives recognition to communities for excellence in management of the agency, its professional staff, its dedication to serving the needs of its citizens, creative financing, use of volunteers, serving the disabled and disadvantaged, and diversity of program/activity opportunities. Also awarded "Sports Illustrated" Magazine's Arizona Sportstown USA for Scottsdale Parks and Recreation. The magazine and the National Recreation and Park Association featured this award as part of the magazine's 50th anniversary.

Obtained a grant for a new youth sports complex on a school/park site in central Scottsdale, through partnership with the Arizona Tourism and Sports Authority and three youth sports organizations.

Completed the final phase of La Mirada Desert Park by adding a lighted basketball court, additional storage and turf area.

Completed the Community Services Facilities Plan, updating the Parks Master Plan 2010.

Completed a study of youth sports fields maintenance issues and made recommendations that will result in safer, better playing surfaces for the City's youth and that will strengthen the partnership between the City, the Scottsdale Unified School District, and the community organizations providing youth sports activities.

Information Systems

Reached agreement with Qwest on the construction schedule for their cable TV system. The negotiations culminated with an increase in Community Contributions to the City – Qwest is providing the City with data transmission circuits for a period of ten years. The cost savings to the City is over \$950,000.

Developed and implemented an automated Pavement Management System. This system assists with long-term pavement maintenance planning and budgeting by simplifying retrieval of historical data, calculation of quantity and cost estimates, and expediting customer service. It meets federal requirements that keep the City eligible for federal transportation funds, as well as meets GASB 34 accounting requirements.

Completed the Network Upgrade Project replacing the City's network communications infrastructure that supports most of the computers, servers and applications used in the City. The new equipment has improved overall network performance ten-fold, as well as provided increased manageability and security.

Completed key infrastructure upgrades. Replaced production servers for several key systems. Replaced the primary production laser printer – doubling the print speed while adding enhancements that will reduce the need for custom forms resulting in lower costs. Upgraded the software on 2,200 desktop and laptop computers to provide increased security, a vendor supported platform, and a more intuitive user interface.

Completed the mapping of natural wash corridors with a measuring flow of 50 cubic feet/second (cfs), which is a requirement for the new Environmental Sensitive Land Ordinance. This will allow City staff to review and to assure wash modifications result in an equal or enhanced quality of open space, restoration of vegetation occurs, adjacent properties are not impacted, and the integrity of upstream or downstream corridors will be reduced.

Planning and Development Services

Provided After-Hours Inspections and an Expedited Review process to enhance customer service. Revenues from the After-Hours Inspections totaled \$19,475 and revenues from the Expedited Review process totaled \$238,900. These revenues offset the Department's entire overtime expenses for the fiscal year, with the remaining funds going directly to the City's General Fund to support other General Fund activities.

Initiated a new on-line building permit system enabling customers to enter application information from their home/office, thereby reducing processing time at the One Stop Shop. Also, opened a new customer service satellite

office at the City's Corporation Yard to service customers in the northern area.

Coordinated review of 405 public hearing cases and focused on character and quality to meet community expectations.

Conducted 154,300 inspections, performed 900 green building inspections, and issued over 3,000 Certificates of Occupancy.

Preservation

Completed negotiations for acquisition of all remaining private land in the Preserve boundary.

Completed plans and initiated building of first access area in the Preserve.

Managed process for developing partnership between the City and the owner of the Hotel Valley Ho for revitalization of the historic hotel.

Water Resources

Reaffirmed the importance of water conservation as a high priority through targeted public education and community awareness programs, such as the "Water-Use It Wisely" advertising campaign. Scottsdale's total potable water use decreased approximately 5 percent for 2003. This decrease can be partially attributed to increased customer awareness of drought conditions and the importance of water conservation in the desert.

Completed a vulnerability assessment of the water system with the assistance of a Federal EPA grant and identified potential areas for improvement. The City of Scottsdale has initiated an action plan to make these improvements. Projects currently in progress include the installation of additional access controls at Water Resources office buildings and utilization of advanced detection and surveillance technology at Water Resources facilities.

Began design and construction of the Chaparral Water Treatment Plant at Hayden and McDonald in 2003, with a January 2006 completion date. This plant will utilize advanced membrane technology to provide high quality drinking water to portions of Original Scottsdale. Also completed design of Phase III of the Water Campus Wastewater Treatment Plant to accommodate increased sewer flows and effluent reuse. Construction will take place during FY 2004/05.

Awarded an 'A' grade on the "Making the Grade: The Valley's Environmental Report Card" from The Valley Forward Association, a unique public interest group that has influenced the quality of life and environmental decisions in the Valley since 1969. The Association stated, "Scottsdale can be used as a model for solid and comprehensive water resources planning." The City of Scottsdale continues to reduce reliance on groundwater by using more renewable surface water (67 percent) than groundwater (33 percent).

Surpassed or equaled all Federal and State drinking water standards for Scottsdale's city water supply, as reported in the 2003 Water Quality Report sent to all customers. To ensure continued compliance with Federal Water Quality standards, design and construction of treatment facilities for arsenic removal from the water supply has been initiated and will be in place by January 2006 when the Environmental Protection Agency requires water providers to meet the new standard for arsenic.

Municipal Services

Purchased approximately \$3.5 million in Fire department equipment to be added to the City's Fleet inventory, in preparation for the City transitioning to a municipal Fire department in July 2005. Also supported implementation of the Transportation department's downtown trolley route by providing a dedicated bio-diesel fuel tank at the Angus fuel site; issuing fuel cards and training Transportation employees on the proper use of the fuel system; and monitoring tank levels to ensure availability of bio-diesel fuel. The Scottsdale Trolleys are the first vehicles in the City to use this type of fuel, which is a clean-burning, environmentally friendly alternative fuel.

Negotiated an extension of the intergovernmental agreement with the Salt River Pima Maricopa Indian Community through 2015 for solid waste services, including landfill, recyclables processing, green waste recovery and transfer hauling services. Also diverted 29,926 tons of recycling material from the containerized residential waste stream through curbside recycling. This represents 30 percent of the waste generated and helped avoid almost \$600,000 in landfill tipping fees, while generating over \$200,000 in revenue. Solid Waste completed this fourth straight year without requiring an increase to residential

collection rates. Solid Waste has aggressively supported the south Scottsdale revitalization effort – providing two roll-offs for neighborhood cleanups and spearheaded efforts to address alley issues, among others.

Successfully completed the Stack 40's drainage plan and the Stormwater Management Plan, including implementation of the Severe Weather Warning and Response plan with secure satellite and Internet communications, 24/7 availability of qualified meteorologist, automatic electronic notification system, and identification of alternative dedicated funding sources outside of the General Fund.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Scottsdale for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. This was the 31st consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Scottsdale received the Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2003 from the GFOA for our conformity in budget presentation. We believe that our current budget continues to conform to the program requirements and expect to receive this award for the fiscal year beginning July 1, 2004. In addition, the City's triple-A ratings from all three rating agencies on uninsured general obligation bonds as provided above were affirmed by the Rating Agencies in April 2004 in conjunction with the issuance of general obligation refunding bonds. (See the Management Discussion and Analysis for additional information on the bond ratings by bond type.)

The preparation of this report could not have been accomplished without the dedicated service of the entire staff of the Accounting and Budget divisions, the assistance of administrative personnel in the various departments, and through the competent service of our independent auditors. I also wish to express my sincere appreciation to the City Council, the City Manager, and the Assistant City Managers for their interest and support in planning and conducting the financial affairs of the City of Scottsdale in a responsible and progressive manner.

Respectfully submitted,



Craig Clifford, CPA, CGFM
Chief Financial Officer